Retail sales recover slightly in May, but remain quite weak

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- **Retail sales (May): -23.7% y/y; Banorte: -21.6%; consensus: -20.0% (range: -22.9% to -17.5%); previous: -23.8%**
- **Performance was nearly identical to the previous month in annual terms, still showing the strong impact from measures taken to fight COVID-19**
- **In monthly terms, retail sales bounced back 0.8%, although only after the 22.5% decline observed in April. In this sense, the index remains very close to its historical low**
- **By sectors, internet sales stayed strong at +13.9% m/m, while other defensive categories, such as healthcare (+1.3%) and supermarket and departmental stores (-1.5%), were still relatively resilient**
- **Meanwhile, some of the most impacted sectors in April, such as clothing (-14.3%) and office and leisure (-5.9%), kept declining. On the contrary, auto and fuel increased 3.1%**
- **We expect an acceleration in June's recovery, aided by the relaxation of restrictions. Nevertheless, weakness in the annual comparison would prevail, with consumption fundamentals still deteriorated**

Retail sales fall 23.7% y/y in May, marginally better. This was lower than consensus (-20.0%) but slightly closer to our forecast (-21.6%). Similar to April, performance was driven by the effects from the pandemic as social distancing measures remained very strict during the month. Typical consumption patterns stayed impacted as evidenced by sector performance. In this sense, essential categories –related to food and healthcare– remain strongest. On the contrary, those more exposed to closed stores, categorized as durables goods, and more sensitive to lower activity levels, were still very weak.

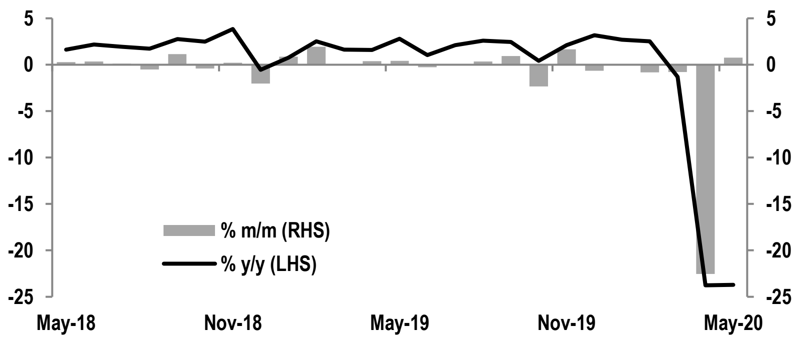
Monthly figures with a slight rebound, but highly differentiated by sector. Sales increased 0.8% m/m but only after the strong 22.5% decline in the previous month. Inside, only four of nine categories improved. Internet sales showed a strong performance with a 13.9% expansion, adding four months to the upside and benefited by its position as a substitute for several categories due to current conditions. Meanwhile, some essentials such as healthcare (+1.3%) rebounded after moderate losses in the previous month, although with others still declining, such as food and beverages (-4.1%). Moreover, supermarkets and departmental stores came in at -1.5%, with the former declining 1.5% after the strong pick up in March. The latter, showed a strong 3.2% increase, possibly benefited by discounts from the *Hot Sale* campaign, although starting from a very level in the previous month. The performance of the rest was mixed. Autos and fuel improved marginally (+3.1%), benefited by vehicles (+19.1%) but with gasoline still lower (-5.7%). In addition, appliances increased 8.0%, possibly also supported by discounts in the period. Meanwhile, clothing (-14.3%) and office and leisure (-5.9%) were sharply lower again, likely affected by store closures as well as lower purchasing power given weaker consumption fundamentals.

Retail sales: May 2020
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	May-20	**Apr-20**	**Mar-20**	**Mar-May'20**
Retail sales	**0.8**	**-22.5**	**-0.8**	**-15.9**
Food, beverages, and tobacco	-4.1	-15.5	-6.6	-18.2
Supermarket, convenience, and departmental stores	-1.5	-18.9	9.3	-4.8
Clothing and shoes	-14.3	-63.5	-23.2	-57.5
Health care products	1.3	-2.2	2.8	1.8
Office, leisure, and other personal use goods	-5.9	-48.6	-17.1	-46.3
Appliances, computers, and interior decoration	8.0	-24.8	-10.2	-23.5
Glass and hardware shop	-1.0	-13.6	1.1	-8.9
Motor Vehicles, auto parts, fuel and lube oil	3.1	-28.0	-4.4	-21.9
Internet sales	13.9	7.0	7.2	17.5

Source: INEGI

Retail sales
% y/y (nsa), % m/m (sa)



Source: INEGI, Banorte

Retail sales likely to improve further in June. Although lower than our expectations, retail sales in May where still higher than in April, providing some support to our call that the latter was likely the weakest month when adjusted for seasonality. In our view, higher mobility –despite remaining low in absolute terms when compared to pre-pandemic levels– has likely helped. In turn, this may be driven by the relative support that it provides to small businesses, which have less possibility of using alternative distribution channels, such as selling via internet. Moreover, we think the gradual reopening of the economy, which accelerated in June, may also be a modest tailwind for services. In this sense, timelier data such as vehicle and ANTAD same-store sales suggest the sequential recovery may have gathered strength in June, despite staying very low in absolute levels and in the annual comparison. The former stood at 62,837 vehicles, above the previous month's 42,028, with the annual decline moderating to -41.1% y/y from -59% in April. The latter showed similar dynamics, albeit with less gains at -20.5% y/y vs -21.2% in real terms. Departmental stores remain the main laggard, declining 46.4%, while supermarkets have been relatively more resilient (-0.9%).

We expect consumers to remain cautious, dampening the strength of a potential rebound going forward. First and foremost, the pandemic's evolution –both globally and domestically– has been worse than expected, risking the possibility of additional lockdowns to stem contagion rates. Even if this were not the case as governments seem more reluctant to do so, high uncertainty associated with this will hit performance. The latter, along a higher risk of losing employment (given lower activity levels) and/or of getting sick, maintains incentives to save elevated.

In this sense, it is our take that sales' dynamics which remain heavily skewed towards essential goods– also support this situation. Coupled with expectations of a modest recovery and relatively low credit penetration (at around 20.5% of GDP), we see the latter lingering around. Although the unemployment rate ticked lower in May and job losses moderated in June, the harm already done by the pandemic to the labor market is an additional headwind that will take time to reverse. On the contrary, one positive aspect has been that remittances inflows stayed resilient until May. Although we recognize this may be a stronger support for consumption, we also think they will slow down as employment conditions in the US have worsened. Considering these factors, we maintain our forecast of a 9.0% y/y decline in private consumption for full-year 2020, with the monthly indicator so far exhibiting an accumulated contraction of 6.0% year-to-date until April. Nevertheless, the latter is likely to keep trending lower as it does not reflect the pandemic's impact at least in May and June, along expected pressures that will remain for the rest of the year as a result of a recovery that will likely be only gradual.

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